REMARKS

In the Final Office Action, the Examiner entered Applicants' provisional election of Group II, claims 8-10, 15-17, and 36, and maintained the restriction requirement despite Applicants' traversal. In the Advisory Action mailed, the Examiner entered Applicants' amendment after final canceling non-elected claims 5-7, 11, 12, and 18-35 without prejudice or disclaimer. Claims 8-10, 15-17, and 36-42 are currently pending.

In the final Office Action, the Examiner rejected claims 8, 15, 17, and 36[1] under 35 U.S.C. 103(a) as being unpatentable over U.S. Patent No. 6,360,210 B1 to Wallman ("*Wallman*") and rejected claims 9, 10, and 16 as being unpatentable over *Wallman* in view of U.S. Patent No. 6,167,384 to Graff ("*Graff*"). The Examiner considered moot Applicants' arguments in the Amendment filed January 29, 2003, in view of the new *Wallman* rejections.

In this Amendment, Applicants have amended claims 8, 9, 15, and 36 to more clearly recite the subject matter of the invention and added new claims 37-42. The subject matter of these amendments and new claims is supported by the specification on pages 1-3, 7, 16, 18-21, 24, and 26, among other places.

To the extent the Examiner may assert that the claims are obvious in view of *Wallman* and *Graff*, Applicants traverse. To establish a *prima facie* case of obviousness under 35 U.S.C. § 103, the Examiner must demonstrate that (1) the cited references disclose or suggest each and every limitation recited in the claims; (2) there is a reasonable probability of success in modifying the teachings of the references; and (3)

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[1] Part 3 of the Final Office Action (on page 2) states that "[c]laims 8-10, 15-17, and 36 are rejected under 35 U.S.C. 103(a) as being unpatentable over Wallman." Applicants believe, however, that claims 9, 10, and 16 were included in this list by mistake because claims 9, 10, and 16 are not addressed in part 3, but they are addressed separately in part 4, on pages 4-5.

there exists some suggestion or motivation, either in the teachings of the cited references, or in the knowledge generally available to one of ordinary skill in the art, to make such a modification in a manner resulting in the claimed invention. See MPEP § 2143. Furthermore, each of these requirements must be found in the prior art—not based on Applicants' own disclosure. For claims 8-10, 15-17, and 36-42, neither *Wallman* nor *Graff*, whether taken alone or in combination, disclose or suggest each and every feature recited in these claims. Also, there is no motivation or suggestion to combine *Wallman* and *Graff*.

Wallman Does Not Teach or Suggest That a Payment Obligation is Triggered by Certain Events Associated with Real Estate Loans or Assets Underlying the Instruments

Claim 8 recites a method for issuing a guarantee certificate, which is a financial instrument representing an obligation of a party to make a payment triggered by certain default-related events associated with a real estate loan, the method comprising the steps of: pooling, into a reference pool, instruments representing payment obligations triggered by certain default-related events associated with real estate loans underlying the instruments; identifying and segregating cash flows paid to satisfy triggered payment obligations for the instruments in the reference pool; and issuing a guarantee certificate to entitle a holder of the certificate to receive at least one payment from the identified and segregated cash flows.

Among other things, *Wallman* does not teach payment obligations that are triggered by certain events associated with the real estate loans underlying the instruments in the reference pool, as recited in claim 8. Claims 15, 38, and 39 recite similar features. Instead, *Wallman* teaches a technique for limiting the downside risk to the direct market value of a portfolio of security assets for a small investor. (See, e.g.,

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col. 1, lines 21-25; col. 5, lines 52-57; col. 6, lines 14-19.) Specifically, *Wallman* teaches a method for providing an investor-selectable degree of market risk protection that ranges from full protection of the direct asset value of the stocks underlying the portfolio (no decrease in the portfolio market value from the current market value), to partial protection of the underlying stocks' direct asset value (no more than a specified decrease in the portfolio value, e.g., -10%), to indexed protection of the stocks' asset value (e.g., no decrease in the portfolio value beyond a decrease related to the value of a selected index, such as the S&P 500 stock index). (See, e.g., col. 6, line 47 - col. 7, line 19; col. 10, lines 15-54.) A customized group of securities could also be used to measure relative performance in place of an index. (Col. 6, lines 63-65.) A small investor pays for *Wallman*'s market risk protection for a specified "shield period," and if the direct market value of the stocks in the portfolio is below the purchased risk-protection level when the shield period ends, then the investor is paid the amount necessary to bring the portfolio's market value up to the shielded protection level at that time. (See, e.g., col. 7, lines 2-13; col. 9, lines 8-16; col. 11, lines 7-12.)

There are no payment-triggering events associated with real estate loans, or any other assets, in the system disclosed by *Wallman. Wallman* teaches only that an investor is paid at the end of the investor-specified shield period based on the market value of the shielded portfolio at that time. (E.g., col. 6, lines 30-33; col. 10, lines 17-19; col. 10, line 66-67; col. 11, lines 48-67.) In contrast, a guarantee certificate holder is entitled to a payment every time a triggering event occurs for the assets underlying the instruments in the reference pool, as recited in claim 8. For example, in the case of mortgage-backed securities, events such as foreclosure on a property associated with a

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real estate loan backing an instrument in the reference pool, loan delinquency associated with a real estate loan underlying an instrument in the pool, or liquidation of a property backing an instrument in the pool, may trigger a payment obligation that results in a payment to the guarantee certificate holder. (See, e.g., application, page 3, lines 16-21; page 17, lines 5-20.) *Wallman*'s single end-of-period shield payment is not triggered by certain events associated with the portfolio assets because it occurs automatically at the end of a specified time period (the "shield period") without regard to certain events and without regard to what assets are in the shielded portfolio. (E.g., col. 6, lines 30-31; col. 8, lines 15-17; col. 10, lines 17-19.)

Furthermore, *Wallman* teaches a system for hedging market value risk for stocks, and *Wallman*'s single mention of "debts" does not teach or suggest the features and operations recited in claims 8 and 15, such as default-related events involving real estate loans triggering a payment obligation.

Wallman Does Not Teach or Suggest Identifying and Segregating Cash Flows Paid to Satisfy Triggered Payment Obligations for the Instruments in the Reference Pool

Discussing claim 8 in the Final Office Action, the Examiner asserted that "the customized group of securities [disclosed by *Wallman*] includes a reference pool." (Final OA, page 3.) This assertion is erroneous because the customized group of securities taught by *Wallman* does not generate cash flows that can be identified and segregated as recited in claims 8 and 38. *Wallman*'s group of securities is merely a hypothetical group of securities that is used to compare the relative performance of an investor's actual portfolio. (Col. 6, lines 61-65.) And even if *Wallman's* hypothetical group of securities were actual, it would still not include cash flows paid to satisfy obligations triggered by certain events associated with the underlying assets, such as

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default-related events associated with real estate loans, as explained above. *Wallman's* shield payment to the investor comes from the shield provider, not from the cash flows recited in claims 8 and 38.

Graff Does Not Teach or Suggest Creating a Trust for Holding the Pooled Instruments and Paying Through the Trust Some Portion of the Identified and Segregated Cash Flows to the Holder of the Certificate, or a Tradable Guarantee Certificate

Graff concerns a system for decomposing, based on temporal factors, a real property interest into an estate for years component that entitles the holder to the property's lease income (rent) for a term of years and a remainder equity interest component that generally entitles the holder to all the property's interests after the estate for years term expires and for selling the components to investors as financial products.

Graff's mere mention in passing of using a trust to hold the estate for years interests and remainder interest to avoid federal tax liability and of publicly trading shares of a holding company that implements *Graff*'s decomposed property interest scheme does not teach or suggest creating a trust for holding pooled instruments representing payment obligations triggered by certain default-related events associated with the real estate loans underlying the instruments, or tradable guarantee certificates as recited in claims 9, 10, and 16.

Furthermore, one of the Examiner's asserted reasons for a skilled artisan to combine *Wallman* and *Graff*, namely that "the disclosures taken as a whole suggest that the certificate holders would have benefited from the liquidity offered from having a tradable contract," is impermissibly based on hindsight in light of the Applicants' disclosure of the benefits of tradability, such as that "tradability [of guarantee

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certificates] allows a holder of mortgage default risk to continually adjust the quality and cost of the insurance in place to offset the default risk." (Appl. page 24). Furthermore, *Wallman's* market value shields are for individual small investors and *Wallman* does not disclose that they are tradable nor any reason why a small investor would be inclined to trade them.

The Examiner's other asserted reason for combining these references, namely a trust's "tax benefits" and "greater likelihood of payment" are not motivation to find and combine *Graff* with *Wallman* for a skilled artisan faced with the invention's problem. As explained with respect to one embodiment consistent with the invention, a trust may be used to solve the problem of redirecting cash flows from instruments that pay only the instrument holder. A trust can hold such instruments, receive the cash flows, and then identify and segregate payments for the guarantee certificate holders. (e.g., Appl., pages 3, 20.) A skilled artisan faced with solving the problem of segregating payments from instruments that pay only the instrument holder would not be motivated by the "tax benefits" and "greater likelihood of payment" that the Examiner contends would lead to a combination *Wallman* with *Graff.*

<u>Conclusion</u>

For at least the foregoing reasons, *Wallman* and *Graff,* whether taken alone or in combination, fail to disclose each and every element recited in independent claims 8 and 15. Accordingly, Applicants respectfully request that the Examiner withdraw the 35 U.S.C. § 103 rejections of these claims and allow them to issue. Applicants also submit that claims 9-10, 16-17, 36, 37, and 40-42, which depend from claims 8 and 15, are

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allowable for at least the same reason. Similarly, new claims 38 and 39, which recite features similar to those recited in claims 8 and 15, are also allowable.

In addition, there is no suggestion or motivation, either in the teachings of *Wallman* and *Graff*, or in the knowledge generally available to one of ordinary skill in the art, to make combine *Wallman* and *Graff* in a manner resulting in the invention recited in claims 9, 10, and 16. Therefore, Applicant's submit that a *prima facie* case of obviousness under 35 U.S.C. § 103 has not been established for these claims and respectfully request that the Examiner withdraw the 35 U.S.C. § 103 rejection of these claims for this additional reason.

Applicants' undersigned representative invites the Examiner to contact him at 571-203-2748 if it will in any way help in advancing prosecution of this case.

Please grant any extensions of time required to enter this response and charge any additional required fees to our deposit account 06-0916.

Respectfully submitted,

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Dated: December 9, 2003

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